

# PROGRAM DESIGN



## Program Overview

The Virginia Enterprise Initiative (VEI), administered by the Virginia Department of Housing and Community Development (DHCD), was created in 1995 to provide an opportunity for disadvantaged individuals to become economically independent through micro business training and access to credit. Economic independence is defined as “microenterprise self-employment” or “microenterprise income patching” that raises a family’s income above the poverty level. VEI also strives to create, expand, retain and strengthen microenterprise businesses.

VEI provides grants and technical assistance to local organizations that will deliver microenterprise services. Local microenterprise development organizations (MDOs) also partner with banks, area businesses, educational institutions, or other private and public entities within the community.

### **Mission**

*The Virginia Enterprise Initiative provides an opportunity for disadvantaged populations, such as women, minorities, and low-income individuals, to become economically independent through micro business training and access to credit.*

VEI microentrepreneurs will generally need more basic training as well as intensive coaching on topics such as completing a business plan, credit repair, marketing, or financial management. Lending to the targeted client group has been considered high risk by traditional financial institutions. These potential microentrepreneurs tend to have credit or collateral issues and they may require technical assistance to successfully resolve these issues as part of the lending process.

As part of its program design, each VEI site must offer four basic components to its clients: training (business skills training and business plan development training), one-on-one technical assistance, microloans, and follow-up assistance. Through intensive, multi-day training, entrepreneurs are provided with a foundation of skills needed to operate a business, and are guided in the development of a business plan. Topics for business plan development training may include bookkeeping, marketing, finance, insurance, and personnel management. In addition to training, the participants receive one-on-one technical assistance to evaluate their business concept and plan. This is done through intensive counseling from the MDO during the entrepreneur’s business planning process. If the concept proves to be feasible, the entrepreneur will be assisted in preparing documents to package a loan proposal to a commercial lender or the internal loan committee of the MDO. VEI microloans must be \$35,000 or less.

Finally, all entrepreneurs receiving microloans must have access to follow-up assistance. There are many challenges that face microbusinesses, especially those just starting. Therefore, VEI sites must continue providing assistance to participants after they are in business. Follow-up assistance must be conducted on a regular basis and be responsive to the immediate needs of the entrepreneur.

## Program Design

The VEI program will be administered through MDOs that will work with disadvantaged entrepreneurs to help them start or expand their own business. The selected MDO will implement the VEI program so that it coordinates with other programs provided by the site

and/or community partners that encourage microenterprise development. Those applicants who provide additional and related services (i.e. IDA [Individual Development Account] program, access to library materials, classes in Spanish, etc.) that are consistent with the VEI program's mission will be given higher consideration. This shows strong recognition of the needs of the target market, service area, and an ability to leverage additional resources to expand services offered.

Approved VEI sites must offer the following services:

- **Training**

VEI sites have flexibility in assessing their clients' overall training needs. VEI allows the site to fast-track existing business owners through training so they receive the training (business skills training or business plan development training) that best meets their needs. Training is customized for each individual, and the goal of business plan development training is a completed business plan. The cost of training should be reasonably accessible to disadvantaged populations.

**Business Plan Development Training** – Through multi-day sessions, business principles are covered by qualified trainers with expertise in microenterprise development. Entrepreneurs are provided with a foundation of the skills needed to operate a business through a series of sessions covering a range of topics including, bookkeeping, marketing, finance, insurance and staffing, for example. At the conclusion of the scheduled courses, the entrepreneur will have a completed business plan, be ready for additional technical assistance, and/or be prepared to request a microloan.

**Business Skills Training** – Single-session group trainings are offered to entrepreneurs covering specific topics such as marketing, finance, or personnel development. This training assists an entrepreneur who may be in the nascent stage of a business idea and may only be interested in a specific topic or an entrepreneur who may have a business plan in place, but needs additional exposure to a particular topic.

- **One-on-One Technical Assistance** – One-on-one counseling should be provided to help clients evaluate their business concept. This one-on-one technical assistance helps guide the entrepreneur through the business planning process. If the concept proves to be feasible, the entrepreneur will be assisted in preparing documents to package a loan proposal.
- **Microloans** - VEI sites are expected to have a diverse loan portfolio made up of microloans of various amounts; some may be under \$5,000, some may be \$20,000, and others may be closer to, but not greater than the maximum VEI loan amount of \$35,000. The service of providing microloans may be brokered by the VEI site from any other funding sources so long as the total amount of an individual loan does not exceed \$35,000. VEI sites should expect that out of the total capital loaned and

available to loan, at least 50 percent is lent to qualifying entrepreneurs during the contract period. As an example, if a program has a total of \$100,000 available in loan funds from all sources and \$20,000 is currently issued in outstanding loans, \$80,000 remains as available capital for microloans. In this case, the program should strive for issuing \$30,000 additional (50 percent of \$100,000 = \$50,000 - \$20,000 [existing loans] = \$30,000) in microloans. In addition, VEI sites will not be able to use a borrower's primary residence as collateral for a VEI loan. Loan approval and repayment terms are decided by a loan review committee that can include program staff, bank partners, and interested citizens from the community. Priority for microloans should be given to individuals that demonstrate that they have been or would be denied access to capital at a traditional financial institution.

- **Follow-Up or Post Loan Assistance** - There are many challenges that face microbusinesses, especially those just starting. Therefore, a VEI site must continue providing assistance to its participants once they are in business. Follow-up or post loan assistance (measured by hours) must be conducted on a regular basis and be responsive to the immediate needs of the entrepreneur whether the loan was issued with VEI or non-VEI funds.

It is important for VEI sites to provide efficient and effective services to the target market and under certain circumstances, this may mean that the MDO will find it most effective to broker some of the required services. Training, both business skills training and business plan development training, may be brokered if topics offered are relevant to and appropriate for the site's target market. Microloans may also be a brokered service. One-on-one technical assistance and post-loan assistance, however, must be provided by the VEI site.

## **Designation Process**

DHCD will select sites based on a competitive application round. Through the selection process, the participating organizations, whether new or existing, will demonstrate the need for microenterprise services within their service area, organizational capacity to implement the VEI program, and a positive program impact.

DHCD will support the selected VEI sites by providing training, technical assistance, peer exchanges and public education efforts, in addition to funding.

## **Program Funding**

Budget allocation is for \$500,000 per contract year and is available for grants awarded to new, expanding or existing sites which have microenterprise development programs. Through a competitive application process, 9 sites will be selected and \$477,000 will be equally divided among the sites, with each being awarded \$53,000. Remaining funds will be available for small innovation grants, performance-based grants, grants to provide access to microenterprise services in areas of the state that are currently not served, technical assistance and training endeavors.

DHCD, through the VEI program, is committed to helping fund effective training (business skills training and business plan development training) and one-on-one technical assistance services

because the experience of microenterprise practitioners has been that funding sources for these components are limited

## **Use of Funds**

Microenterprise services may be delivered in a variety of ways to ensure maximum access by a target market. While an MDO may provide clients with an array of other assistance, the use of VEI funds is limited to operating, managing, and delivering a microenterprise program. Services such as transportation, day care, or English language skills may also be funded through VEI if they are clearly designed to increase access to a microenterprise program. Creative and entrepreneurial approaches are often required to effectively serve targeted customers. Applicants may propose budgeting VEI funds in a variety of ways but will be required to justify the need for VEI assistance and how it is integral to the achievement of both the target market and program objectives.

## **Match Requirements**

The effectiveness of a VEI-funded program depends on its ability to leverage other public and private resources. Applicants must leverage resources by matching VEI grants with other funding sources. Proposals must indicate the source of matching funds and provide documentation of commitment from funding sources.

Applicants proposing to use VEI assistance to directly capitalize a revolving loan fund, a loan loss reserve account, or provide a credit enhancement (credit-improving instrument such as a guaranty or secondary source of repayment) for microenterprise loans will be required to demonstrate a 1-to-3 VEI to non-VEI matching ratio (25% VEI reimbursement, 75% non-VEI matching). As an example, if a microentrepreneur is requesting a \$10,000 loan, the MDO would issue the loan with \$2,500 available from VEI funds and \$7,500 provided from non-VEI funds.

The matching ratio required for VEI grant funds used for business skills training and business plan development training, one-on-one technical assistance, administration, and other program expenses beyond the actual loan pool is 4-to-1 VEI to non-VEI funds (80% VEI reimbursement, 20% non-VEI matching). As an example, a proposed use of \$10,000 for salary expenses for the site's Executive Director would mean an \$8,000 reimbursement from VEI funds with \$2,000 cash or in-kind contributions committed from other sources.

These match requirements reflect the limited resources available to support the basic operation of a MDO. This also reflects the experience that private sector capital is available for loan pool capitalization, provided there are mechanisms in place to reduce credit risk, such as those provided through the MDO (i.e., loan loss reserve accounts, loan guarantees).

## **Criteria for Participation**

MDOs must complete a detailed application form modeled after a business plan. The application will contain detailed information about the microenterprise development program broken down by key areas, including: Executive Summary, Organization Description, Target Market Analysis, Products and Services, Marketing and Promotions, Program Impact, and Financials. Just like a

business plan for an entrepreneur, the application outlines the organization's resources, analysis of the market, estimated impact and ability to meet the needs of the client. A thorough application demonstrates the MDO's commitment to microenterprise development and its ability to carry forward a program that has impact through leveraged resources.

In order to participate, applicants must demonstrate:

- **Eligibility to Apply** – VEI focuses primarily on community-based nonprofits for the delivery of microenterprise services. While eligibility is not restricted to community-based nonprofits, other respondents such as general nonprofits, local governments, planning district commissions and economic development organizations must demonstrate their ability to take a community-based approach to microenterprise. Community-based approaches involve participation from a broad base of citizens in a community to achieve a common goal.
- **Staffing** - Applicants must have adequate staff resources available to operate the microenterprise program. This includes at least one full-time (at least 35 hours per week) staff member serving as the main contact for the VEI program and whose job description is focused on microenterprise development. It is strongly encouraged that the organization also include an administrative support staff member for the microenterprise development program. This enables the primary microenterprise staff member to focus on business skills training and business plan development training as well as one-on-one technical assistance provision.
- **Leveraging** - Applicants must describe how they will match VEI grants with funds provided from other sources. Both internal and external sources of matching funds must be identified in the program proposal application. Commitment letters that detail the amount and conditions for participation must be given for sources as proof of matching VEI grant monies.
- **Training** – Sites will be required to attend, during the contract year, a VEI training sponsored by DHCD and an additional outside training (approved by DHCD) that would benefit the MDO.
- **Performance Goals** – Applicants must develop appropriate goals which reflect the needs of the target market and service area. Established goals will be market driven with the MDO taking into consideration: competitor organizations, service area, target market, demographics, and identification of potential clients.

## **Evaluation Considerations**

VEI applications will be evaluated to assess the MDO's capacity as an organization, the need for microenterprise development focused on the target market and service area, and the likelihood of positive impact as a result of selection as a VEI site. Some specific evaluation considerations follow:

### **Organizational Capacity**

The MDO has the organizational structure, systems, supports and management expertise to effectively deliver microenterprise services to the population(s) identified as the target market within the geographic service area. The MDO has successfully developed the necessary relationships with other organizations and partners to strengthen microenterprise service delivery.

### **Need for Microenterprise Services**

The MDO has assessed and documented that there is the strong potential for microbusiness development in the service area and has identified all the specific services that must be provided to support entrepreneurship development. The MDO has assessed the challenges and opportunities for microenterprise, including other programs offering competing services, in the service area in order to make the case for the potential client demand for services.

### **Program Impact**

The MDO demonstrates an ability to support VEI's mission of providing access to capital, technical assistance and training to low-income, female and minority entrepreneurs. The MDO has a history of successful performance in service to the target market that indicates the organization will create a positive return on investment of VEI resources. The MDO will also be able to set appropriate, yet challenging, goals for service delivery to identified clients.

### **Marketing and Promotion**

The MDO uses consistent and relevant promotional messages and mechanisms to reach the target market with information about training, services, networking and special opportunities. The MDO utilizes marketing partners to expand the reach of their message.

### **Financials**

The MDO demonstrates good financial stewardship practices and effectively utilizes both VEI funds and a variety of other financial support to meet the needs of low-income, female and minority entrepreneurs. The MDO's budget details how VEI funds will be used, the sources for matching VEI grant money, and the leverage produced from the matches.

## **VEI Programmatic Definitions**

### **Brokering Services**

Collaboration with other organizations (i.e., community development agencies, banks, Small Business Development Centers, and social service agencies) to provide services to clients. This may result in expansion of services and reduction of costs for the VEI microenterprise development program. VEI brokered services may include training focused on microenterprise as well as microloans. One-on-one technical assistance and post-loan assistance may not be brokered.

### **Business**

Any commercial, for-profit entity authorized to do business in the Commonwealth of Virginia.

### **Business Plan**

A written document containing management, marketing, operational, market research, financial information that demonstrates the strengths and weaknesses of a business idea and the business' ability to succeed.

### **Business Plan Development Training**

Multi-day courses that lead to the development of a business plan for an entrepreneur. Courses may provide more in-depth exposure to particular topics or components of a business plan, i.e. finance, marketing or personnel.

### **Business Skills Training**

Single-session group trainings with microentrepreneurs that may cover specific topics such as, marketing assistance, website design, or personnel management.

### **Credit Enhancement**

A tool for reducing risk to the lender and thereby making the borrower more attractive. An example of such a tool may be a guaranty or an improvement of loan terms based on a regularized savings scheme.

### **Contract Period**

The state of Virginia's fiscal year, i.e. July 1, 2006 – June 30, 2007.

### **Loan Pool**

An accumulation of loan capital provided by DHCD or other sources which is loaned and available to loan.

### **Loan Loss Reserve**

General reserve account established by the VEI site to absorb loan losses.

### **Microenterprise**

A microenterprise is a business with five or fewer employees that requires \$35,000 or less in capital.



**Microentrepreneur**

A low-income, female or minority entrepreneur who is seeking capital and/or technical assistance in the start up or expansion of a microenterprise.

**Microenterprise Development Organization (MDO)**

Local organization that delivers microenterprise services. Services offered may include business skills training, business plan development training, one-on-one technical assistance, microloans and post-loan assistance.

**Non-VEI Microloan**

Capital provided by a source other than DHCD's VEI program which is disbursed to existing or potential microentrepreneurs in the amount of \$35,000 or less.

**Revolving Loan Fund**

A source of loan capital for microloans provided to entrepreneurs. Available capital may be from both VEI and non-VEI sources. Payments are returned directly to the fund and used to make new loans.

**Service Area**

The geographic region, and the populations within it, where the VEI site offers business skills training, technical assistance and loan capital.

**Target Market**

The population within a service area that the VEI site serves which may include low-income, female or minority entrepreneurs.

**Technical Assistance**

One-on-one business related consulting services to existing or potential entrepreneurs via individual meetings, e-mail or telephone.

**VEI Microloan**

Loan capital provided by DHCD's VEI program which is disbursed to existing or potential microentrepreneurs in the amount of \$35,000 or less.